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July 27, 2012

Greg Nothstein
Washington Department of Commerce
1011 Plum Street S.E.
P.O. Box 42525
Olympia, WA 98504-2525

RE: GHG EPS Draft Reliability and Cost Analysis

Dear Mr. Nothstein:

PSE is the largest investor-owned utility in Washington, serving more than 1.1 million electric customers. PSE has long supported sound public policy to reduce greenhouse gas emissions. PSE is also committed to providing its customers with safe, reliable and affordable electricity. PSE participated in the development Engrossed Substitute Senate Bill 6001 in 2007, the initial rulemaking process, and appreciates this opportunity to participate in the Department of Commerce's (DOC) effort to implement the on-going requirements of the legislation.

On July 20, 2012, we received DOC's email providing a draft document entitled "Reliability and Cost Analysis: Supporting the Washington emissions performance standard for baseload electric generation." As we understand it, the Department intends this document to satisfy its obligation under the statute to consider the effects of a revised emission performance standard on system reliability and customer costs. Your July 20th email, asked PSE to provide any comments on the document by August 3, 2012, and states the Department's intention to hold a meeting concerning the document on August 6, 2012. The company's understanding of the agenda for the August 6th meeting, after the DOC April 11, 2012, was that the discussion would revolve around the survey methodology and did not include the Assessment as a point of discussion.

PSE strongly urges the Department to extend the comment period and postpone the August 6th meeting in order to allow PSE and other interested parties a reasonable time to provide meaningful input for the draft Assessment.

RCW 80.80 specifically requires the Department of Commerce, to "consider the effects of the greenhouse gas emissions performance standard on system reliability and overall costs to electricity customers," whenever "adopt[ing] and implementing the greenhouse gas emissions performance standard." RCW 80.80.040(1). Before taking any action to change the emission performance standard, this provision plainly requires the Department to conduct a serious evaluation of the potential effects on system reliability and customer costs.

Unfortunately, the draft document circulated last week falls far short of the serious evaluation required to consider these issues in a meaningful way. The draft is just over four pages long, and provides at most a cursory summary of the Department's conclusions and on some points relies on a 2007 assessment that does not take into account changing market factors, current economic conditions, new and updates laws, and a changed energy resource mix. It provides no data and little explanation to support those conclusions, and no references where supporting data or analysis might be found.

Even more significantly, the draft document fails to consider how a lower greenhouse gas emission performance standard might affect the regional electric system as a whole, changing the acquisition options for utilities, the opportunities for generation owners, and the incentives for future development. For example, it does not consider the following possibilities:

- Whether a lower emission performance standard would increase utility reliance on short-term power purchase contracts, and the extent to which such an increase might affect system reliability and customer costs.
- Whether a lower emission performance standard would increase utility reliance on non-baseload resources (including less efficient simple-cycle peakers), and the extent to which such an increase might affect system reliability and customer costs.
- Whether a lower emission performance standard would decrease the utilization of existing regional gas-fired CCCT resources, possibly "stranding" many of those resources, and the extent to which such an increase might affect system reliability and customer costs.
- Whether a lower emission performance standard would accelerate the construction of new gas-fired generation resources in the region, and the extent to which that could affect system reliability and customer costs.
- Whether a lower emission performance standard would increase utility reliance on out-of state resources, and the extent to which that could affect system reliability and customer costs.

These are just some of the ways that a more stringent emission performance standard might change the resource mix relied upon by Washington utilities, and might change the incentives affecting the regional electric market. The Department should have analyzed these and other possibilities in detail and presented data to support its analysis. Moreover, we would have expected to see sophisticated modeling of alternative scenarios. Unfortunately, the draft document does not even discuss these possibilities.

In the absence of this basic analysis from the Department, PSE and other interested parties will need much more than two weeks to gather the relevant factual information and try to develop the kind of detailed technical analysis that it had expected the Department to provide. For this reason, PSE urges the Department to extend the comment period and postpone the proposed August 6th meeting. Before proceeding to propose any change in the emission performance

standard, the Department should conduct a much more sophisticated and robust analysis of these issues.

PSE appreciates your consideration of these concerns. If you have any questions or need further clarification, please feel free to email me or call me directly at 425.456.2561.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Faretra", with a stylized, flowing script.

Keith Faretra

Senior Resource Scientist